

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1697

January 31, 2020

SUMMARY OF BILL: Enacts the “Food Tax Holiday Act”, which exempts the retail sale of food and food ingredients from the state portion of the sales and use tax for the months of June and July in 2020. Requires the Commissioner of the Department of Revenue, beginning July 1, 2020, to reimburse counties and municipalities for loss of revenue resulting from this Act.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$44,010,500/Each FY19-20 and FY20-21

Increase State Expenditures – \$1,914,200/Each FY19-20 and FY20-21

Increase Local Revenue – Net Impact - \$654,300/Each FY19-20 and FY20-21

Assumptions:

- Tax revenue collections on food and food ingredients sold in June and July of 2019 were \$85,793,765.
- Food and food ingredients sales are estimated to increase by five percent during the two-month sales tax holiday as a result of customers shifting their purchases to the holiday that would otherwise occur outside of that time-frame.
- The current Fiscal Review Committee staff estimate for sales and use tax revenue growth in FY19-20 is 5.52 percent. The total decrease in state revenue is estimated to be \$95,056,060 ($\$85,793,765 \times 1.0552 \times 1.05$).
- The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.
- The decrease in state revenue is estimated to be \$91,227,582 [$\$95,056,060 - (\$95,056,060 \times 4.0276\%)$].
- Counties and municipalities will be reimbursed for any loss of revenue resulting from the tax exemption.
- The increase in state expenditures to reimburse local government is estimated to be \$3,828,478 ($\$95,056,060 \times 4.0276\%$). The net impact on local revenue from this part of the proposed legislation will be not significant.
- Fifty percent of tax savings, or \$47,528,030 ($\$95,056,060 \times 50.0\%$), will be spent in the economy on other non-food sales-taxable goods and services.

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The total increase in state sales tax collections is estimated to be \$3,206,626 $[(\$47,528,030 \times 7.0\%) - (\$47,528,030 \times 7.0\% \times 3.617\%)]$.
- The total increase in local revenue is estimated to be \$1,308,537 $[(\$47,528,030 \times 2.5\%) + (\$47,528,030 \times 7.0\% \times 3.617\%)]$.
- The net decrease in state revenue as a result of this bill is estimated to be \$88,020,956 $(\$91,227,582 - \$3,206,626)$.
- Based on 2019's collections, the sales and use tax collections from sales of food and food ingredients are roughly equal in June and July; it is therefore assumed that the revenues, expenditures, and reimbursements will be evenly split between FY19-20 and FY20-21.
- The decrease in state revenue for FY19-20 and FY20-21 each is estimated to be \$44,010,478 $(\$88,020,956 / 2)$.
- The increase in state expenditures for FY19-20 and FY20-21 each is estimated to be \$1,914,239 $(\$3,828,478 / 2)$.
- The net increase in local revenue for FY19-20 and FY20-21 each is estimated to be \$654,269 $(\$1,308,537 / 2)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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